

DEEP RIVER TOWNSHIP
ARENAC COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
YEARS ENDED JUNE 30, 2006 and 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Deep River Township	County Arenac
Fiscal Year End June 30, 2006	Opinion Date December 5, 2006	Date Audit Report Submitted to State December 18, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

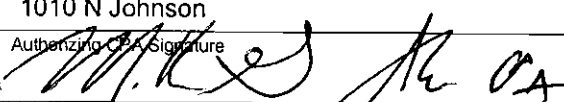
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Quast, Janke & Company, CPA's, PC		Telephone Number 989-892-4549	
Street Address 1010 N Johnson		City Bay City	State MI
Zip 48708		License Number A 248794	
Authorizing CPA Signature 		Printed Name Mark G Janke, CPA	

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Quast, Janke and Company, P.C.
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REPORT LETTER

December 5, 2006

To The Township Board
Deep River Township
Arenac County
Standish, Michigan 48658

We have audited the accompanying financial statements of the Government Activities, each major fund, and the aggregate remaining fund information of the Deep River Township as of and for the year ended June 30, 2006 and 2005, which collectively comprise the Township's financial statements as listed in the table of contents. These financial statements are the responsibility of the Deep River Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government Activities, each major fund, and aggregate remaining fund information of the Deep River Township as of June 30, 2006 and 2005, and the respective changes in financial position for the year then ended in conformity with United States generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 through 22 are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To The Township Board
Deep River Township
December 5, 2006
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Deep River Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY


Certified Public Accountants, P.C.

Deep River Township

Management's Discussion and Analysis

This section of Deep River Township's Annual Financial Report presents our discussion and analysis of the Township's financial performance during the year ended June 30, 2006. Please read it in conjunction with the Township's financial statements, which immediately follows this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Deep River Township financially as a whole. The government-wide Financial Statements provide information about the activities of Deep River Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds – the General Fund, Road Fund, Cemetery Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent.

Management's Discussion and Analysis (MD &A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the Township as a Whole – Government-Wide Financial Statements

One of the most important questions asked about the Township is, "As a whole, what is the Township's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Township's financial statements, report information on the Township as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Deep River Township

Management's Discussion and Analysis

These two statements report the Township's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Township's operating results. However, the Township's goal is to provide services to our residents, not to generate profits as commercial entities do.

The statements of net assets and statement of activities report the governmental activities for the Township, which encompass all of the Township's services, including legislative, general government, public safety, public works and culture and recreation. Property taxes, special assessments, and unrestricted State shared revenue finance most of these activities.

Reporting the Township's Most Significant Funds – Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law. However, the Township establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Township use the following accounting approach:

Governmental funds – All of the Township's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Township and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The Township as a Whole

Recall that the statement of net assets provides the perspective of the Township as a whole. Table 1 provides a summary of the Township's net assets as of June 30, 2006:

TABLE 1:

	<u>Governmental Activities</u>	
	June 30,	
	<u>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 302,691	\$ 244,796
Capital assets – Net of accumulated depreciation	<u>271,505</u>	<u>302,362</u>
Total assets	574,196	547,158
Liabilities		
Current liabilities	<u>13,244</u>	<u>14,035</u>
Net Assets		
Invested in property and equipment	271,505	292,986
Restricted	46,606	44,304
Unrestricted	<u>242,841</u>	<u>195,833</u>
Total net assets	<u>\$ 560,952</u>	<u>\$ 533,123</u>

Deep River Township

Management's Discussion and Analysis

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Township's governmental activities is discussed below. The Township's net assets were \$560,952 at June 30, 2006. Capital assets reflects the original cost, less depreciation of the Township's capital assets. The remaining amount of net assets (\$302,691) was unrestricted.

The \$302,691 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Township as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2006 and 2005.

TABLE 2:

	<u>Governmental Activities</u>	
	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue:		
Charges for services	\$ 7,450	\$ 9,728
Grants, contributions and other	0	0
General revenue:		
Property taxes	59,212	62,344
Special voted taxes	46,606	44,980
State shared revenue	125,479	122,529
Other	<u>34,069</u>	<u>58,456</u>
Total revenue	272,816	298,037
Function/Program Expenses		
Legislative	30,557	34,756
General Government	113,607	119,291
Public Safety	34,892	31,967
Public Works	63,097	88,102
Cultural and Recreation	2,544	7,301
Interest on Long-Term Debt	<u>290</u>	<u>1,857</u>
Total expenses	<u>244,987</u>	<u>283,274</u>
Increase in Net Assets	<u>\$ 27,829</u>	<u>\$ 14,763</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$244,987. Certain activities were partially funded from those who benefitted from the program or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$105,818 in taxes, \$125,479 in State shared revenue, and with our other revenues, such as interest and other.

The Township experienced an increase in net assets of \$27,829. The increase in net assets differs from the change in fund balance and reconciliation appears on page 14.

As discussed above, the net cost shows the financial burden that was placed on the State and the Township's taxpayers by each of these functions. Since property taxes for operations and State shared revenues constitute the majority of Township operating revenue sources, the Board of Trustees must annually evaluate the needs of the Township and balance those needs with State-prescribed available unrestricted resources.

Deep River Township

Management's Discussion and Analysis

The Township's Funds

As we noted earlier, the Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

As the Township completed this year, the governmental funds reported a combined fund balance of \$289,447, which is an increase of \$49,311 from last year. The General Fund, our principal operating fund, the balance increased \$47,558. Overall, actual General Fund revenues were within 87% of budgeted amounts, and expenditures were within 80% of budgeted amounts.

The Road Fund fund balance increased \$2,303.

Budgetary Highlights

Over the course of the year, the Township revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the original budgets were as follows:

All Budgeted Funds -

- There were only minor minimal increases in budgeted expenditures, if any.
- There were no significant variances between the final budget and actual costs.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the Township had \$556,781 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$1,149.

	<u>2006</u>	<u>2005</u>
Land and improvements	\$ 88,502	\$ 88,502
Buildings and improvements	222,674	222,674
Vehicles	162,892	162,892
Equipment	<u>82,713</u>	<u>81,564</u>
Total capital assets	556,781	555,632
Less accumulated depreciation	<u>285,276</u>	<u>253,269</u>
Net capital assets	<u>\$ 271,505</u>	<u>\$ 302,363</u>

This year's additions of \$1,149 consisted of a safe.

Deep River Township

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials consider many factors when setting the Township's 2007 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy. This resulted in a \$3,000 increase in State shared revenues in the year ended June 30, 2006, however, cuts may be forthcoming in 2007.

Contacting the Township's Financial Management

This financial report is designed to provide the Township's citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deep River Township, 511 State St, Sterling, MI 48659.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

STATEMENT OF NET ASSETS
June 30, 2006 and 2005

	Totals June 30,	
	2006	2005
ASSETS:		
Cash	\$ 271,906	\$ 218,024
Other receivables	3,628	600
Due from State	17,551	17,774
Due from other funds	9,606	8,398
Capital assets	556,781	555,632
Accumulated depreciation	(285,276)	(253,270)
Total Assets	574,196	547,158
LIABILITIES:		
Current portion of long-term liabilities	0	9,376
Accounts payable and other liabilities	13,244	4,659
Total Liabilities	13,244	14,035
NET ASSETS:		
Investment in capital assets net of related debt	271,505	292,986
Restricted	46,606	44,304
Unrestricted	242,841	195,833
Total Net Assets	\$ 560,952	\$ 533,123

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

STATEMENT OF ACTIVITIES
Year Ended June 30, 2006 and 2005

	<u>Program Revenues</u>			<u>Governmental Activities</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Net (Expenses), Revenues and Changes in Net Assets</u>	
GOVERNMENTAL ACTIVITIES:					
Legislative	\$ 30,557	\$ 0	\$ 0	\$ (30,557)	\$ (34,756)
General Government	113,607	7,450	0	(106,157)	(109,563)
Public Safety -					
Fire	22,643	0	0	(22,643)	(22,687)
Other	12,249	0	0	(12,249)	(9,280)
Public Works	63,097	0	0	(63,097)	(88,102)
Culture and Recreation -	2,544	0	0	(2,544)	(7,301)
Interest on long-term debt	290		0	(290)	(1,857)
Total Governmental Activities	\$ <u>244,987</u>	\$ <u>7,450</u>	\$ <u>0</u>	(237,537)	(273,546)
GENERAL PURPOSE REVENUES:					
Property taxes -					
General Levy				59,212	62,344
Special Voted - Roads				46,606	44,980
State shared revenues				125,479	122,529
Investment earnings				8,906	6,752
Other				25,163	51,704
Total General Purpose Revenues				<u>265,366</u>	<u>288,309</u>
Change in Net Assets				27,829	14,763
Net Assets - Beginning of Year				<u>533,123</u>	<u>518,360</u>
Net Assets - End of Year				\$ <u>560,952</u>	\$ <u>533,123</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2006 and 2005

	GENERAL	ROAD	OTHER NONMAJOR GOVERNMENTAL FUNDS
ASSETS:			
Cash in bank	\$ 216,703	\$ 46,606	\$ 8,597
Accounts receivable	3,278	0	350
Other receivables	0	0	0
Due from State	17,551	0	0
Due from other Funds	9,606	0	0
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 247,138	\$ 46,606	\$ 8,947
	<hr/>	<hr/>	<hr/>
LIABILITIES:			
Accounts payable	\$ 5,487	\$ 0	\$ 0
Accrued salaries & wages	4,571	0	0
Payroll taxes	1,746	0	0
Due to other funds	0	0	1,090
Other liabilities	350	0	0
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	12,154	0	1,090
	<hr/>	<hr/>	<hr/>
FUND EQUITY:			
Reserved	0	46,606	0
Unreserved	234,984	0	7,857
	<hr/>	<hr/>	<hr/>
TOTAL FUND EQUITY	234,984	46,606	7,857
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND EQUITY	\$ 247,138	\$ 46,606	\$ 8,947
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements.

Totals June 30,	
2006	2005
\$ 271,906	\$ 218,024
3,628	0
0	600
17,551	17,774
9,606	8,398
<u>\$ 302,691</u>	<u>\$ 244,796</u>

\$ 5,487	\$ 2,392
4,571	0
1,746	2,167
1,090	0
350	100
<u>13,244</u>	<u>4,659</u>
46,606	44,304
<u>242,841</u>	<u>195,833</u>
<u>289,447</u>	<u>240,137</u>
<u>\$ 302,691</u>	<u>\$ 244,796</u>

DEEP RIVER TOWNSHIP

Arenac County, Michigan

GOVERNMENTAL FUNDS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

June 30, 2006

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	289,447
Amounts reported for governmental activities in the statement of net assets are different because -		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Capital assets at cost		556,781
Accumulated depreciation		<u>(285,276)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>560,952</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2006 and 2005

	GENERAL	ROAD	OTHER NONMAJOR GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$ 59,212	\$ 46,606	\$ 0
Licenses & Permits	8,615	0	0
State Grants	125,479	0	0
Contributions from Local Units	0	0	12,166
Charges for Services	0	0	7,450
Interest and Rentals	8,876	0	30
Other Revenue	4,382	0	0
Total Revenues	206,564	46,606	19,646
EXPENDITURES:			
Legislative	30,557	0	0
General Government	93,393	0	13,030
Public Safety	12,249	0	0
Public Works	18,794	44,303	0
Cultural and Recreation	1,513	0	0
Debt Service	0	0	9,666
Total Expenditures	156,506	44,303	22,696
EXCESS OF REVENUES OVER EXPENDITURES	50,058	2,303	(3,050)
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	0	0	2,500
Transfer to other funds	(2,500)	0	0
Total Other Financing Sources (Uses)	(2,500)	0	2,500
NET CHANGE IN FUND BALANCES	47,558	2,303	(550)
FUND BALANCE - Beginning of Year	187,426	44,303	8,407
FUND BALANCE - End of Year	\$ 234,984	\$ 46,606	\$ 7,857

The accompanying notes are an integral part of the financial statements.

Year Ended June 30,			
2006		2005	
\$	105,818	\$	107,324
	8,615		6,983
	125,479		122,529
	12,166		33,430
	7,450		9,728
	8,906		6,752
	4,382		11,292
	272,816		298,038
	30,557		34,756
	106,423		129,864
	12,249		9,280
	63,097		88,102
	1,513		3,608
	9,666		30,930
	223,505		296,540
	49,311		1,498
	2,500		2,500
	(2,500)		(2,500)
	0		0
	49,311		1,498
	240,136		237,398
\$	<u>289,447</u>	\$	<u>238,896</u>

DEEP RIVER TOWNSHIP

Arenac County, Michigan

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	49,311
Amounts reported for governmental activities in the statement of activities are different because -		
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated lives as depreciation:		
Depreciation expense		(32,007)
Capital outlay		1,149
Installment purchase principal repayment reported as an expenditure in governmental funds and as a reduction of long-term debt in the statement of activities		
		9,376
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>27,829</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2006 and 2005

	Trust & Agency	Current Tax Collections	Totals June 30,	
			2006	2005
ASSETS:				
Cash in bank	\$ <u>7,416</u>	\$ <u>1,100</u>	\$ <u>8,516</u>	\$ <u>8,398</u>
LIABILITIES:				
Due to General Fund	\$ <u>7,416</u>	\$ <u>1,100</u>	\$ <u>8,516</u>	\$ <u>8,398</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Deep River Township is located in Arenac County and operated under an elected Board of Trustees (5 members) and provides services to its residents in many areas. The financial statements of the Township have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY:

In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB No. 14. The basic - but not the only - criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of the ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Township is able to exercise oversight responsibilities.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Township's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identified with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes taxes and unrestricted State aid.

Fund-based Statements - Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within approximately 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Fiduciary Fund statements are also reported using the economic resources measurement focus and the modified accrual basis of accounting.

The Township reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Road Fund - The Road Fund is used to record property tax revenue, interest earnings and other revenue restricted for use on Township roads.

Assets, Liabilities, and Net Assets or Equity

Deposits - Cash and cash equivalents include cash on hand and demand deposits.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1, of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both entity-wide and fund financial statements.

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an individual cost of more than \$300 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

Compensated Absences - There is no liability for compensated absences reported in the government-wide statements since no township employees are provided with sick or vacation pay benefits.

Long term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have significant expenditure budget variances.

Fund Deficits - The Township had no accumulated fund balance deficits.

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS :

Deposits of the Township are carried at cost and maintained at Citizens Bank, Independent Bank and Chemical Bank, federally insured banks.

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Township is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Township's deposits are in accordance with statutory authority.

At year end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash	\$ 271,905	\$ 8,516	\$ 280,421

The Government Accounting Standards Board Statement No. 3 requires the amount of total bank balances to be classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
- (3) Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent by not in the entity's name). Bank deposits including certificates of deposit:

	<u>Primary Government</u>
Category 1.	\$ 144,310
Category 2.	-
Category 3.	<u>136,111</u>
Total Bank Balances	<u>\$ 280,421</u>
Carrying Amount	<u>\$ 280,421</u>

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4 CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Land and improvements	\$ 88,502	\$ -	\$ -	\$ 88,502
Buildings and improvements	222,674	-	-	222,674
Vehicles	162,892	-	-	162,892
Equipment	<u>81,564</u>	<u>1,149</u>	<u>-</u>	<u>82,713</u>
Total Capital Assets	555,632	1,149	-	556,781
Accumulated Depreciation				
Land and improvements	5,676	1,344	-	7,020
Buildings and improvements	59,298	3,904	-	63,202
Vehicles	127,771	22,643	-	150,414
Equipment	<u>60,524</u>	<u>4,116</u>	<u>-</u>	<u>64,640</u>
Total Accumulated Depreciation	<u>253,269</u>	<u>32,007</u>	<u>-</u>	<u>285,276</u>
Net Capital Assets	<u>\$ 302,363</u>	<u>\$ (30,858)</u>	<u>\$ -</u>	<u>\$ 271,505</u>

Depreciation expense was charged to activities of the Township as follows:

Governmental activities	\$ 8,333
Public safety	22,643
Recreation and culture	<u>1,031</u>
Total government activities	<u>\$ 32,007</u>

NOTE 5. RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, errors, omissions, employee injuries, and workman's compensation benefits.

The Township has purchased commercial insurance for general liability, errors and omissions, physical damage for equipment, buildings and contents and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General Fund	\$ 1,100	Current Tax Collections	\$ 1,100
General Fund	1,090	Cemetery Fund	1,090
General Fund	<u>7,416</u>	Trust and Agency	<u>7,416</u>
	<u>\$ 9,606</u>		<u>\$ 9,606</u>

DEEP RIVER TOWNSHIP
ARENAC County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued):

Operating transfers during the year:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 2,500
Cemetery Fund	<u>2,500</u>	<u>-</u>
	<u>\$ 2,500</u>	<u>\$ 2,500</u>

Transfers are used to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7. LONG-TERM DEBT:

The Township entered into the installment purchase obligation to acquire a fire truck and a 2002 Chevrolet pickup. As of June 30, 2006, both installment purchase obligations were retired.

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>
Governmental Activities:			
Installment purchases:			
Fire Truck	\$ 1,874	\$ (1,874)	\$ -
2002 Chevrolet	<u>7,502</u>	<u>(7,502)</u>	<u>-</u>
Total Governmental Activities	<u>\$ 9,376</u>	<u>\$ (9,376)</u>	<u>\$ -</u>

NOTE 8. PENSION PLAN:

Deep River Township has a defined contribution plan for employees other than elected officials or part-time workers, through Manulife. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the amount earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

The Township's pension plan agreement specified which Township positions are covered by the plan. Contributions made by an employee and the Township vest immediately. An employee that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account. Effective January 1, 2006, the Township contribution was reduced to 1% of annual compensation for elected officials and 7.5% for other covered employees.

REQUIRED SUPPLEMENTAL INFORMATION

DEEP RIVER TOWNSHIP
Arenac County, Michigan

BUDGET COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Taxes	\$ 61,900	\$ 61,900	\$ 59,212
Licenses & Permits	6,500	6,500	8,615
State Grants	100,900	100,900	125,479
Interest and Rentals	5,550	5,550	8,876
Other Revenue	<u>5,750</u>	<u>5,750</u>	<u>4,382</u>
Total Revenues	180,600	180,600	206,564
EXPENDITURES:			
Legislative	34,500	30,800	30,557
General Government	87,800	92,800	93,393
Public Safety	12,500	12,800	12,249
Public Works	56,022	56,022	18,794
Cultural and Recreation	<u>4,000</u>	<u>2,400</u>	<u>1,513</u>
Total Expenditures	194,822	194,822	156,506
OTHER FINANCING SOURCES (USES):			
Transfer to other funds	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>
NET CHANGE IN FUND BALANCE	(16,722)	(16,722)	47,558
FUND BALANCE - BEGINNING OF YEAR	<u>187,426</u>	<u>187,426</u>	<u>187,426</u>
FUND BALANCE - END OF YEAR	\$ <u><u>170,704</u></u>	\$ <u><u>170,704</u></u>	\$ <u><u>234,984</u></u>

DEEP RIVER TOWNSHIP

Arenac County, Michigan

BUDGET COMPARISON SCHEDULE - ROAD FUND

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Taxes	\$ 44,000	\$ 44,000	\$ 46,606
EXPENDITURES:			
Public Works	44,303	44,303	44,303
NET CHANGE IN FUND BALANCE	(303)	(303)	2,303
FUND BALANCE - BEGINNING OF YEAR	44,303	44,303	44,303
FUND BALANCE - END OF YEAR	\$ 44,000	\$ 44,000	\$ 46,606

OTHER SUPPLEMENTAL INFORMATION

DEEP RIVER TOWNSHIP
Arenac County, Michigan

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006 and 2005

	Special Revenue Funds		Totals June 30,	
	Fire	Cemetery	2006	2005
<u>ASSETS</u>				
Cash in bank	\$ 0	\$ 8,597	\$ 8,597	\$ 8,407
Accounts receivable	0	350	350	0
	<u>\$ 0</u>	<u>\$ 8,947</u>	<u>\$ 8,947</u>	<u>\$ 8,407</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Due to General Fund	\$ 0	\$ 1,090	\$ 1,090	\$ 0
Fund Balance	0	7,857	7,857	8,407
	<u>\$ 0</u>	<u>\$ 8,947</u>	<u>\$ 8,947</u>	<u>\$ 8,407</u>

DEEP RIVER TOWNSHIP
Arenac County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue Funds		Totals	
	Fire	Cemetery	Year Ended June 30,	
			2006	2005
REVENUES:				
Contributions from Local Units	\$ 9,666	\$ 2,500	\$ 12,166	\$ 33,430
Charges for Services	0	7,450	7,450	9,190
Interest and Rentals	0	30	30	44
Other Revenues	0	0	0	225
Total Revenues	9,666	9,980	19,646	42,889
EXPENDITURES:				
General Government	0	13,030	13,030	15,700
Debt Service	9,666	0	9,666	30,930
Total Expenditures	9,666	13,030	22,696	46,630
EXCESS OF REVENUES OVER EXPENDITURES	0	(3,050)	(3,050)	(3,741)
OTHER FINANCING SOURCES:				
Transfer from General Fund	0	2,500	2,500	2,500
NET CHANGE IN FUND BALANCE	0	(550)	(550)	(1,241)
FUND BALANCE - Beginning of Year	0	8,407	8,407	9,648
FUND BALANCE - End of Year	\$ 0	\$ 7,857	\$ 7,857	\$ 8,407

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2006 and 2005

	Year Ended June 30,	
	2006	2005
REVENUES:		
Taxes -		
Current tax levy	\$ 37,076	\$ 47,155
Swamp & Forest	1,375	1,375
Administration fees	20,761	13,814
Total Taxes	59,212	62,344
Licenses & Permits -		
Building Permits	8,615	6,983
State Grants -		
Sales tax	125,479	118,593
Charges for Services -		
Land division	0	500
Other	0	38
Total Charges for Services	0	538
Interest and Rentals -		
Interest earned	5,018	1,951
Oil royalties	2,773	2,158
Rents	1,085	2,565
Total Interest and Rentals	8,876	6,674
Other Revenue - Miscellaneous	4,382	11,067
Total Revenues	206,564	206,199
EXPENDITURES	156,506	199,393
EXCESS OF REVENUES OVER EXPENDITURES	50,058	6,806
OTHER FINANCING SOURCES (USES):		
Transfer to Cemetery Fund	2,500	2,500
NET CHANGE IN FUND BALANCE	47,558	4,306
FUND BALANCE - Beginning of Year	187,426	183,120
FUND BALANCE - End of Year	\$ 234,984	\$ 187,426

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES
Year Ended June 30, 2006 and 2005

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
EXPENDITURES:		
LEGISLATIVE:		
Township Board -		
Trustees' salaries	\$ 8,450	\$ 3,749
Other wages	0	5,470
Legal & professional	2,650	2,805
Membership dues	250	1,816
Printing and publishing	319	925
Retirement administration fees	0	1,429
Seminars and conventions	4,279	4,154
Travel	1,658	925
Supplies and other costs	3,119	2,336
Insurance	5,947	7,269
Payroll taxes	3,885	3,878
Total Legislative	30,557	34,756
GENERAL GOVERNMENT:		
Supervisor -		
Salary	8,450	8,520
Supplies and other costs	186	0
Total Supervisor	8,636	8,520
Elections -		
Wages	461	3,932
Supplies and other costs	149	2,751
Total Elections	610	6,683
Assessor -		
Salary	0	19,110
Contracted services	26,240	2,065
Supplies and other costs	1,478	5,942
Capital outlay	0	1,870
Total Assessor	27,718	28,987
Clerk -		
Salary	12,688	10,125
Supplies and other costs	360	427
Total Clerk	13,048	10,552
Board of Review -		
Salaries	1,410	1,950
Supplies and other costs	0	105
Total Board of Review	1,410	2,055

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2006 and 2005

	Year Ended June 30,	
	2006	2005
EXPENDITURES (CONT.):		
GENERAL GOVERNMENT (CONT.):		
Treasurer -		
Salary	\$ 16,085	\$ 15,318
Deputy Treasurer	2,128	3,207
Supplies and other costs	5,875	6,438
Total Treasurer	24,088	24,963
Township Hall -		
Salaries	0	1,800
Utilities	5,888	4,749
Telephone	1,185	1,098
Repairs and maintenance	9,152	7,263
Supplies and other costs	509	322
Capital Outlay	1,149	17,172
Total Township Hall	17,883	32,404
Total General Government	93,393	114,164
PUBLIC SAFETY:		
Building Inspector -		
Salary	7,081	5,525
Supplies and other costs	718	356
Total Building Inspector	7,799	5,881

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2006 and 2005

	Year Ended June 30,	
	2006	2005
EXPENDITURES (CONT.):		
Zoning & Planning		
Salaries	\$ 4,425	\$ 3,257
Supplies and other costs	25	142
Total Zoning & Planning	4,450	3,399
Total Public Safety	12,249	9,280
PUBLIC WORKS:		
Highway, Streets and Bridges -		
Routine maintenance	17,907	34,531
Street Lighting -		
Utilities	887	794
Drain-at-large	0	2,260
Total Public Works	18,794	37,585
CULTURAL AND RECREATIONAL:		
Library -		
Operating allocation	0	1,000
Park -		
Salary	425	958
Supplies and other costs	1,088	1,650
Total Park	1,513	2,608
Total Cultural and Recreational	1,513	3,608
TOTAL EXPENDITURES	\$ 156,506	\$ 199,393